



GOVERNOR'S OFFICE OF  
BUDGET AND PROGRAM PLANNING

## Fiscal Note 2011 Biennium

<b>Bill #</b>	SB0501	<b>Title:</b>	State tax on servings of alcohol for local scholarships and prevention
<b>Primary Sponsor:</b>	Kaufmann, Christine	<b>Status:</b>	As Introduced

- |   |  |  |
|---|--|--|
| <input type="checkbox"/> Significant Local Gov Impact     | <input checked="" type="checkbox"/> Needs to be included in HB 2 | <input checked="" type="checkbox"/> Technical Concerns   |
| <input type="checkbox"/> Included in the Executive Budget | <input type="checkbox"/> Significant Long-Term Impacts           | <input type="checkbox"/> Dedicated Revenue Form Attached |

### **FISCAL SUMMARY**

	<u><b>FY 2010 Difference</b></u>	<u><b>FY 2011 Difference</b></u>	<u><b>FY 2012 Difference</b></u>	<u><b>FY 2013 Difference</b></u>
<b>Expenditures:</b>				
General Fund	\$399,935	\$111,021	\$113,796	\$116,641
State Special Revenue	\$79,670	\$36,596	\$36,596	\$36,596
<b>Revenue:</b>				
General Fund	\$0	\$71,900	\$74,261	\$76,659
State Special Revenue	\$3,903,813	\$5,316,316	\$5,431,983	\$5,549,513
<b>Net Impact-General Fund Balance:</b>	<u><u>(\$399,935)</u></u>	<u><u>(\$39,121)</u></u>	<u><u>(\$39,535)</u></u>	<u><u>(\$39,982)</u></u>

### **Description of fiscal impact:**

This bill would impose a tax of \$0.05 per drink sold in an establishment licensed for on-premise consumption. The tax revenue would be used to treat and prevent alcohol abuse, educate about the consumption of alcohol, and establish a program for scholarships and local alcohol treatment.

### **FISCAL ANALYSIS**

#### **Department of Revenue**

#### **Assumptions:**

1. This bill would impose a tax of \$0.05 on each serving of an alcoholic beverage sold in an establishment licensed for on-premise consumption of alcoholic beverages in the state. A serving is defined as 1 fluid ounce of liquor, 8 fluid ounces of table wine or 12 fluid ounces of beer or hard cider.

2. For the nation as a whole, 25% of alcohol consumption takes place on the premise that the alcohol was purchased. It is assumed that Montana has the same consumption patterns.
3. In FY 2008 the liquor warehouse had total sales of \$98,594,652. The average posted price per liter bottle of distilled spirits was equal to \$13.85. So there were 7,118,747 liters of liquor sold in the state ( $98,594,652 / 13.85 = 7,118,747$ ) in FY 2008.
4. It is estimated that 25% of this was consumed in on-premise consumption and would be subject to the \$0.05 per drink tax. There are 1,779,687 liters of alcohol consumed in on-premise consumption ( $7,118,747 \times .25 = 1,779,687$ ).
5. Each liter has 33.8 fluid ounces. So there were 10,025,569 servings of liquor sold for on-premise consumption ( $\{1,779,687 \times 33.8\} / 6 = 10,025,569$ ) in FY 2008.
6. The tax revenue from 10,025,569 servings would be \$501,278 ( $10,025,569 \times \$0.05 = \$501,278$ ).
7. It is assumed that the liquor consumed for on-premise consumption grows at the same rate as the population of Montana. The official revenue estimates (HJR 2) assume that Montana's population will grow by 0.7% per year in the biennium. This would mean that there would be \$508,321 in tax revenue from the sale of liquor for on-premise consumption in FY 2010 ( $501,278 \times 1.007^2 = 508,321$ ), \$511,879 in FY 2011 ( $508,321 \times 1.007 = 511,879$ ), \$515,462 in FY 2012 and \$519,071 in FY 2013.
8. The official revenue estimates assume that there will be 1,018,138 barrels of beer sold in FY 2010 and 1,037,556 in FY 2011. They assume that beer consumed increases by 19,418 barrels per year, so there would be 1,056,974 barrels sold in FY 2012 and 1,076,392 barrels sold in FY 2013.
9. 25% of all beer consumed is sold for on-premise consumption, so in FY 2010 there are 254,535 barrels of beer sold for on premise consumption ( $1,018,138 \times 0.25 = 254,535$ ), 259,389 barrels in FY 2011, 264,244 barrels in FY 2012 and 269,098 in FY 2013.
10. Each barrel of beer has 31 - 12 ounce servings ( $31 \times 128 / 12 = 331$ ). So in FY 2010 there would be 84,250,920 servings of beer sold for on-premise consumption ( $254,535 \times 331 = 84,250,920$ ), 85,857,759 servings in FY 2011, 87,464,599 servings in FY 2012 and 89,071,438 servings in FY 2013.
11. Beer would generate \$4,212,546 dollars in tax revenue in FY 2010 ( $84,250,920 \times 0.05 = 4,212,546$ ), \$4,292,888 in revenue in FY 2011, \$4,373,230 in revenue in FY 2012 and \$4,453,572 in revenue in FY 2013.
12. The official revenue estimates assume that there will be 11,179,995 liters of wine sold in the state in FY 2010 and 11,740,503 liters in FY 2011. They assume a growth rate of 5.5% per fiscal year, so in FY 2012 there would be 12,386,231 liters sold ( $11,740,503 \times 1.055 = 12,386,231$ ) and 13,067,473 liters sold in FY 2013.
13. It is assumed that 25% of wine sold in the state is sold for on-premise consumption. This would mean that there will be 2,794,999 liters consumed for on-premise consumption in FY 2010 ( $11,179,995 \times 0.25 = 2,794,999$ ), 2,935,126 liters for on premise consumption in FY 2011, 3,096,558 liters for on-premise consumption in FY 2012 and 3,266,868 liters for on-premise consumption in FY 2013.
14. Each liter has 4.225 – 8 ounce servings ( $33.8 / 8 = 4.225$ ). In FY 2010 there will be 11,808,870 – 8 ounce servings of wine sold for on-premise consumption ( $2,794,999 \times 4.225 = 11,808,870$ ) in FY 2010, 12,400,906 servings in FY 2011, 13,082,956 servings in FY 2012 and 13,802,519 servings in FY 2013.
15. Wine would generate \$590,443 in tax revenue in FY 2010 ( $11,808,870 \times 0.05 = 590,443$ ), \$620,045 in revenue in FY 2011, \$654,148 in revenue in FY 2012 and \$690,126 in FY 2013.
16. This bill does not have an effective date, but applies to all servings of alcoholic beverages sold, delivered or distributed after September 30, 2009. The applicability date is ¼ of the way through FY 2010, so the revenue impact will be 75% of the total amount in FY 2010.

17. If this bill passes, the total additional tax revenue would be \$3,983,483 in FY 2010, \$5,424,812 in FY 2011, \$5,542,840 in FY 2012 and \$5,562,768 in FY 2013. This is summarized in the table below:

	<b>FY 2010</b>	<b>FY 2011</b>	<b>FY 2012</b>	<b>FY 2013</b>
<b>Liquor</b>	\$381,241	\$511,879	\$515,462	\$519,071
<b>Beer</b>	\$3,159,409	\$4,292,888	\$4,373,230	\$4,453,572
<b>Wine</b>	<u>\$442,833</u>	<u>\$620,045</u>	<u>\$654,148</u>	<u>\$690,126</u>
	\$3,983,483	\$5,424,812	\$5,542,840	\$5,662,768

18. Section 1 (4) (a) allows the Liquor Control division to keep an allowance of 2% of the tax due to offset their costs associated with administering the tax. This would be equal to \$79,670 in FY 2010 ( $3,983,483 \times 0.02 = 79,670$ ), \$108,496 in FY 2011, \$110,857 in FY 2012 and \$113,255 in FY 2013. This will help offset expenses of administering the tax.
19. This would leave \$3,903,813 in revenue in FY 2010 ( $3,983,483 - 79,670 = 3,903,813$ ), \$5,316,316 in FY 2011, \$5,431,983 in FY 2012 and \$5,549,513 in FY 2013.
20. This revenue would be deposited in a state special revenue account to the credit of the department of public health and human services for alcohol treatment, prevention, education and enforcement. This revenue is to be used: 40% for treatment programs, 40% for prevention, education and enforcement and 20% for a scholarship program provided for in section 6 of this bill. Total state special revenue would increase by \$5,205,084 in FY 2010, \$5,316,316 in FY 2011, \$5,431,983 in FY 2012 and \$5,549,513 in FY 2013.
21. Tax returns are required to be filed on a form designed by the Department of Revenue. It would cost the department \$2,100 to design the form in the first year.
22. This would be a new tax type in Gentax, the computer software used by the department to administer state taxes. Adding a new tax type in Gentax would cost \$300,000 and is not covered by existing contracts.
23. The liquor control division would hire 0.5 FTE to audit and process returns. This would cost \$28,900 in personal services, \$7,296 in annual operating expenses in the first year and \$7,696 in following years and \$4,900 in one-time only operating costs to set up an office and buy office equipment.
24. The liquor enterprise fund transfers its profits in the state general fund at the end of each fiscal year. In FY 2010, the expenditures are greater than the 2% withholding in assumption 18. In FY 2011, the withholding is \$71,900 more than expenses ( $108,496 - 36,596 = 71,900$ ) which will be deposited in the state general fund. In FY 2012, this amount will be \$74,261 and in FY 2013 it will be \$76,659.

### **Department of Public Health and Human Services**

#### **Assumptions:**

25. The Chemical Dependency Bureau (CDB) will distribute the tax proceeds to counties and Indian reservations in the state. The CDB will adopt rules governing the use of the funds, the content and manner of a jurisdiction's plans to expend the monies, and compliance and oversight of expenditures of these monies. Monies may only be used for alcohol prevention, treatment, education, and enforcement. The CDB will approve each jurisdiction's plan for expenditure of funds, monitor compliance with the expenditure of funds, and assess penalties for misuse of these funds.
26. 2.00 FTE, human service specialists, pay band 6 will be needed to administer the program. They will create rules, establish policies and procedures, approve and assist county and tribal governments with their treatment and prevention plans, monitor expenditures and enter and analyze data in the program database system to be developed. Salary and benefits are \$45,567 each, for a total of \$91,134 each year.
27. A contractor will be hired to develop a program database system to track and monitor the status of entities who are receiving funds and providing services. It is estimated that it will take 125 hours to develop this

system at a cost of \$80 per hour, for a total of \$10,000 in FY 2010. Travel and related expenses are incorporated into the rate.

28. A one-time only procurement of computers and office set-up (desk, chair, file cabinet, bookcase) for the two new employees at a cost of \$2,600 each will be needed, for a total of \$5,200 in FY 2010.
29. Other operating expenses include office supplies, communications including telephone equipment, long distance, cell phones, and computer connections, travel, and rent, for a total of \$14,600 each year.
30. Training for program personnel is expected to cost \$500 each, for a total of \$1,000 in FY 2010.
31. Department indirect costs are estimated to cost 5% of the total personnel and operating budget. These costs are estimated to be \$6,495 in FY 2010, \$5,287 in FY 2011, \$5,419 in FY 2012, \$5,554 in FY 2013.
32. An inflationary factor of 2.5% was applied to these positions in FY 2012 and FY 2013.
33. Funding is through the general fund. There is no provision in the bill to pay DPHHS administrative costs through revenue proceeds.
34. Legal Services, within the Director's Office, will incur expenditures for legal fees for work on rules and filing fees.
35. The department's legal staff is working at capacity; therefore, these services will need to be done using the Agency Legal Services through the Department of Justice.
36. It is estimated that the total legal costs are \$6,720 for Legal fees (\$84 x 80 Agency Legal Services hours) and \$1,250 in filing fees (25 pages x \$50/ page filing fee), for a total of \$7,970 in FY 2010.

	<b><u>FY 2010 Difference</u></b>	<b><u>FY 2011 Difference</u></b>	<b><u>FY 2012 Difference</u></b>	<b><u>FY 2013 Difference</u></b>
<b>Department of Revenue</b>				
<b><u>Fiscal Impact:</u></b>				
<b>FTE</b>	0.50	0.50	0.50	0.50
<b><u>Expenditures:</u></b>				
Personal Services	\$28,900	\$28,900	\$28,900	\$28,900
Operating Expenses	\$309,396	\$7,696	\$7,696	\$7,696
Equipment	\$4,900	\$0	\$0	\$0
<b>TOTAL Expenditures</b>	<b>\$343,196</b>	<b>\$36,596</b>	<b>\$36,596</b>	<b>\$36,596</b>
<b><u>Funding of Expenditures:</u></b>				
General Fund (01)	\$263,526	\$0	\$0	\$0
State Special Revenue (02)	\$79,670	\$36,596	\$36,596	\$36,596
<b>TOTAL Funding of Exp.</b>	<b>\$343,196</b>	<b>\$36,596</b>	<b>\$36,596</b>	<b>\$36,596</b>
<b><u>Revenues:</u></b>				
General Fund (01)	\$0	\$71,900	\$74,261	\$76,659
State Special Revenue (02)	\$3,903,813	\$5,316,316	\$5,431,983	\$5,549,513
<b>TOTAL Revenues</b>	<b>\$3,903,813</b>	<b>\$5,388,216</b>	<b>\$5,506,244</b>	<b>\$5,626,172</b>
<b>Department of Public Health and Human Services</b>				
<b><u>Fiscal Impact:</u></b>				
<b>FTE</b>	2.00	2.00	2.00	2.00
<b><u>Expenditures:</u></b>				
Personal Services	\$91,134	\$91,134	\$93,412	\$95,748
Operating Expenses	\$45,265	\$19,887	\$20,384	\$20,893
<b>TOTAL Expenditures</b>	<b>\$136,399</b>	<b>\$111,021</b>	<b>\$113,796</b>	<b>\$116,641</b>
<b><u>Funding of Expenditures:</u></b>				
General Fund (01)	\$136,399	\$111,021	\$113,796	\$116,641
<b><u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u></b>				
General Fund (01)	(\$399,925)	(\$39,121)	(\$39,535)	(\$39,982)
State Special Revenue (02)	\$3,824,143	\$5,279,720	\$5,395,387	\$5,512,917

**Technical Notes:**

1. This bill requires the liquor store agent to collect the tax of \$0.05 per serving of alcohol for on-premise consumption for alcohol sold to a licensee. Not all alcohol sold to licensees is for on-premise consumption as some licensees sell packaged liquor that is not consumed on-premise.

2. It is not clear if the tax only applies to drinks sold for on-premise consumption or to all alcoholic drinks sold by a licensee.
3. This bill does not apply to the sale of beer by brewers to the public.
4. This bill is applicable to servings of alcoholic beverages sold, delivered or distributed after September 30, 2009. Because the tax is collected by the distributor, it is not clear if the tax applies to existing inventories of alcohol.
5. The defined serving sizes in this fiscal note do not necessarily capture all varying industry standards.
6. There is no provision in the bill for DPHHS to pay the costs of administering this program through tax proceeds. Consequently expenditures are funded through general fund.

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*Sponsor's Initials*

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*Date*

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*Budget Director's Initials*

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*Date*